# Pensions Life Hack by Mike Gorton

## How to Resolve Defined Contribution (DC) Liabilities on Buyout

### What Is the Issue?

Many UK pension schemes are now targeting buyout of defined benefit (DB) liabilities with an insurer in the not-too-distant future. However, schemes will also need to address any DC liabilities. DC liabilities can come in the form of additional voluntary contributions (AVCs), benefits under the DC section of a hybrid scheme or other bespoke benefit structures.

Some schemes will provide DC benefits which are tricky to resolve, particularly for members with pre-A day tax protections or who have both DB and DC benefits in the scheme. If buyout is a scheme's end game, a solution will need to be found before the scheme can wind up.

### How Can You Deal With Residual DC Liabilities?

Options include:

- Bulk transfer or purchase of section 32 policies
- Assignment of AVC policies to individual members
- Augmentation of benefits or conversion to DB

The appropriate solution will depend on the nature of the benefits, the number of members involved, timescales for the buyout project and balancing cost-effectiveness with member outcomes. Schemes will also need to establish whether member consent is required and, in some cases, compensation.

Increasingly, bulk annuity providers can offer alternative products from the buy-in stage, which can provide options to overcome some of these hurdles.

### Lessons Learned

Schemes should ensure that residual DC liabilities are considered at an early stage of planning for buy-in and not left as an afterthought for buyout. This can be a significant issue that forms part of the key requirements for insurers who are asked to provide buy-in quotations.

### Top Tips

1. Discuss the options with your risk transfer consultants at an early stage.
2. Understand the materiality of the scheme's DC liabilities and any complexities in the benefit structures.
3. Engage with the scheme's sponsoring employer, so the approach can be aligned to the wider project.